

**BEFORE THE STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES**

**I/M/O THE PROVISION OF BASIC GENERATION)
SERVICE PURSUANT TO THE ELECTRIC) BPU DOCKET NO. EX01050303
DISCOUNT AND ENERGY COMPETITION ACT)**

**DIRECT TESTIMONY OF PAUL CHERNICK
ON BEHALF OF
THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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AUGUST 29, 2001

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Schedule PLC-1 *Professional Qualifications of Paul Chernick*

1 **I. Identification and Qualifications**

2 **Q: State your name, occupation and business address.**

3 A: I am Paul L. Chernick. I am the president of Resource Insight, Inc., 347
4 Broadway, Cambridge, Massachusetts 02139.

5 **Q: Summarize your professional education and experience.**

6 A: I received an SB degree from the Massachusetts Institute of Technology in
7 June, 1974 from the Civil Engineering Department, and an SM degree from
8 the Massachusetts Institute of Technology in February, 1978 in technology
9 and policy. I have been elected to membership in the civil engineering
10 honorary society Chi Epsilon, and the engineering honor society Tau Beta Pi,
11 and to associate membership in the research honorary society Sigma Xi.

12 I was a utility analyst for the Massachusetts Attorney General for more
13 than three years, and was involved in numerous aspects of utility rate design,
14 costing, load forecasting, and the evaluation of power supply options. Since
15 1981, I have been a consultant in utility regulation and planning, first as a
16 research associate at Analysis and Inference, after 1986 as president of PLC,
17 Inc., and in my current position at Resource Insight. In these capacities, I
18 have advised a variety of clients on utility matters. My work has considered,
19 among other things, power supply planning, rate design, cost allocation, and
20 utility industry restructuring. My resume is appended to this testimony as
21 Schedule PLC-1.

22 **Q: Have you testified previously in utility proceedings?**

23 A: Yes. I have testified approximately one hundred and seventy times on utility
24 issues before various regulatory, legislative, and judicial bodies, including

1 the Massachusetts Department of Public Utilities, Massachusetts Energy
2 Facilities Siting Council, Vermont Public Service Board, Maine Public Utili-
3 ties Commission, Rhode Island Public Utilities Commission, Connecticut
4 Department of Public Utility Control, Texas Public Utilities Commission,
5 New Mexico Public Service Commission, District of Columbia Public
6 Service Commission, Michigan Public Service Commission, Minnesota
7 Public Utilities Commission, Public Utilities Commission of Ohio, South
8 Carolina Public Service Commission, North Carolina Utilities Commission,
9 Florida Public Service Commission, Pennsylvania Public Utilities Commis-
10 sion, New York Public Service Commission, Arizona Commerce Commis-
11 sion, New Orleans City Council, Federal Energy Regulatory Commission,
12 and the Atomic Safety and Licensing Board of the U.S. Nuclear Regulatory
13 Commission. My resume includes a detailed list of my previous testimony.

14 **Q: Have you testified previously before this Board?**

15 A: I filed an affidavit in support of the Ratepayer Advocate's comments in
16 Docket No. BPU EM00020106, on the allocation of proceeds from Atlantic
17 Electric's fossil-plant sale. I also testified for the Ratepayer Advocate in
18 Docket No. GM00080564, on the proposal by Public Service Electric and
19 Gas to transfer its gas contracts to an unregulated affiliate.

20 **Q: Have you worked on other utility-regulation projects in New Jersey?**

21 A: Yes. I have assisted the Ratepayer Advocate in reviewing two rounds of
22 Atlantic Electric's competitive procurement of energy and capacity to serve
23 its BGS loads, and in negotiations related to the restructuring of the Public
24 Service contracts for gas supply to, and electricity purchases from, the
25 Camden and Bayonne NUGs.

1 **II. Introduction and Summary**

2 **Q: On whose behalf are you testifying in this proceeding?**

3 A: I am testifying on behalf of the Division of Ratepayer Advocate.

4 **Q: What is the purpose of your testimony?**

5 A: I discuss the proposal by the four New Jersey electric utilities (Public
6 Service, Jersey Central Power and Light, Atlantic Electric, and Rockland
7 Electric) to use a Simultaneous Descending Clock Auction to acquire whole-
8 sale power supply to provide all of their Basic Generation Service (BGS) for
9 the fourth year of the transition period, August 2002–July 2001.

10 **Q: Please summarize your assessment of the utility proposal.**

11 A: The proposal of the Electric Distribution Companies would expose the
12 ratepayers to unnecessary risk, in part because of uncertainties in the
13 competitive market. The structure of the auction leaves it subject to
14 manipulation. Finally, the proposal, for all its complexities and risks, fails to
15 promote retail competition.

16 **III. Critique of the Electric Distribution Companies' Proposal**

17 **Q: How is the utility proposal risky?**

18 A: The entire approach is fraught with risks. I have identified several contri-
19 buting factors, but I doubt that the following list is exhaustive.

- 20 • The Simultaneous-Descending-Clock-Auction format appears to have
21 never been used before.

- 1 • Even auction formats in the broader Simultaneous Multi-Round (SMR)
2 category (of which Simultaneous Descending Clock is a subset) have
3 been used only for sales, never to purchase anything.
- 4 • The auction would be used to procure supply that is likely to cost on the
5 order of \$5 billion.¹ This is an astoundingly large scale for an experi-
6 mental procurement method.
- 7 • Serving the 17,300 MW of retail load in the proposed auction would
8 require about 20,500 MW of installed capacity, or approximately 34%
9 of PJM’s summer 2001 capacity of 61,000 MW.² An acquisition this
10 large could distort an already tight market.
- 11 • If the response to the auction were inadequate, the Companies’ proposal
12 would constrain the utilities to purchase the remainder of the power
13 from the PJM spot markets, and would preclude any contract purchases.
14 Spot markets for capacity and particularly energy are highly volatile;
15 mandatory reliance on spot-market purchases is one of the factors
16 widely cited as contributing to the California debacle.
- 17 • The utilities have not been able to provide any supporting theory in the
18 absence of any relevant experience. In particular they are unable to
19 provide a basis for setting such crucial parameters as (1) the amount of
20 capacity and the number of bidders necessary to produce a competitive

¹The \$5-billion estimate is the product of 18,000 MW of load at a typical 65% retail load factor and an aggregate price of \$50/MWh for shaped energy, capacity and ancillary services.

²The response to RAR-BGS-29 gives a value of 19,000 MW, based on a Forecast Pool requirement of 8.97%. This is an unforced capacity obligation, not the installed capacity requirement, which equals 19% above the normalized peak load.

1 and efficient auction or (2) the size of the price decrements as a function
2 of capacity bid.³

- 3 • The Companies' approach would preclude any test of the bid prices
4 against the costs of other approaches for supplying BGS.
- 5 • The Companies recognize that one of the critical decisions in the type of
6 auction they propose is the relationship between the initial level of
7 interest by bidders and the amount of BGS service to be purchased.
8 They further recognize that the Board must establish the rules for
9 determining whether all BGS, or some smaller fraction, will be acquired
10 through the auction. Yet the utilities have not provided proposals for
11 these rules or their rationale for those proposals.
- 12 • The proposed period for the acquisition of BGS supply does not match
13 the currently proposed capacity-responsibility periods. This complicates
14 the task of acquiring capacity.

15 **Q: For what kinds of auctions has the Simultaneous Multi-Round approach**
16 **been used?**

17 A: As discussed in IR RAR-BGS-7 and S-18, SMR auctions have been used to
18 sell rights to telecommunications frequencies, and power contracts from
19 some Alberta power plants.⁴ An SMR auction is being developed, with many

³See responses to RAR-BGS-11, RAR-BGS-22 and RAR-BGS-23.

⁴Interestingly, the response to S-18 avoids answering the question, "Has this process ever been used to procure commodities," and treats purchases and sales as if they were the same. The response even says "Both the SDCA [Simultaneous Descending Clock Auction] and the SMR consist of the simultaneous sales of many items in a series of rounds," when the SDCA is a purchase auction, not a sale auction. The Companies have not addressed the differences between purchases and sales.

1 delays, to sell power contracts from some power plants in Texas, and a
2 similar auction is planned in France.⁵

3 **Q: Please elaborate on the relationship between the initial level of interest**
4 **by bidders and the amount of BGS service to be purchased.**

5 A: One of the critical questions is amount of load to be auctioned, as a function
6 of initial interest. If the initial bids cover, for example, 40,000 MW of load
7 (more than twice the amount the Companies need to serve) the market may
8 be robust and competitive (although this is not necessarily the case as I
9 discuss elsewhere in this testimony). If, however, the initial bids are for less
10 than the 18,000 MW sought, or even barely more than the requirements, the
11 offers would not be sufficient to produce a competitive auction for the entire
12 18,000 MW, and the amount of BGS to be acquired must be reduced.

13 The Companies are not aware of any theory for determining the ratio of
14 the quantity bid to the quantity to be auctioned. The Companies could not
15 even identify an analysis that discussed alternative rules and their pros and
16 cons (IR RAR-BGS-11). The closest they could come to any discussion of
17 this issue was a *proposal* in an Italian telecom auction to limit the licenses to
18 be auctioned to be one less than the number of bidders (IR RAR-BGS-13).

19 **Q: What is the Companies' basis for insisting that any BGS supply not**
20 **acquired through this single auction be acquired from the spot market?**

21 A: The Companies argue that this commitment by the Board would put the
22 marketers' backs to the wall, with no chance to retreat to later bilateral trans-

⁵The Companies' lists of past and proposed SMR auctions differ. I have assumed that any auction mentioned in any response occurred or is planned, even if the Companies left it out of other lists.

1 actions. Such an arrangement, the Companies argue, would force marketers
2 to participate fully in the auction, since they otherwise would be exposed to
3 the risks of the spot market in selling their resources. The Companies ignore
4 the fact that they are also proposing to put the Board and ratepayers against
5 the wall of spot markets, with no chance to retreat.

6 The situation for ratepayers is even worse than for marketers, since
7 many marketers can simply decide to sit out the fourth transition year in New
8 Jersey. They could either not purchase resources in the first place or could
9 sell what they have to any or all of the following:

- 10 • utilities in other PJM states with continuing BGS-like obligations (or to
11 firms with responsibility for provide the BGS service to those utilities),
- 12 • customers who are shopping in the market (who may be more numer-
13 ous, if the Companies' auction is carried out and performs poorly),
- 14 • other pools.

15 **Q: Do the Companies recognize that the exposure of the BGS ratepayers to**
16 **the spot market must be limited?**

17 A: Yes.

18 **Q: How do they propose to limit the exposure of the BGS ratepayers to the**
19 **spot market?**

20 A: The Companies' only suggestion to limit exposure to the spot market is that
21 the Board could establish the portion of the BGS supply to be procured from
22 an auction for bundled service, regardless of the price or the competitiveness
23 of the bidding.⁶

⁶The Companies make this proposal at p. 15 of "The EDC Proposal," Part II of the their filing. The details of the Companies' proposal are confidential.

1 Rather than suggesting a working alternative, should the auction prove
2 to be insufficiently competitive, the Companies propose to force ratepayers
3 into the spot market. Recognizing that the spot market is not an acceptable
4 alternative, they suggest that the Board might then force ratepayers back into
5 the auction—even if the auction would fail from lack of interest.

6 The utilities have not identified any solution for the problems their
7 proposal could create.

8 **Q: In what ways is the Companies' approach subject to manipulation?**

9 A: There are at least three general ways in which this large, simultaneous auction
10 could be manipulated, as follows:

- 11 • Generators or marketers could exercise market power.
- 12 • Bidders could overstate the apparent level of competition.
- 13 • Bidders could collude.

14 **Q: How could generators exercise market power?**

15 A: The major suppliers of generation that is not already committed to serve
16 retail loads in this period can quote high prices for their products to
17 marketers, forcing the market-clearing price for BGS service well above the
18 competitive level. Since at least some of the generating companies will have
19 affiliates bidding in the BGS auction, those higher prices would increase the
20 profits to both the generating companies and the affiliated marketers.

21 There are likely to be a few major suppliers on the generation level,
22 particularly PSEG Power and perhaps Reliant, whose participation in the
23 auction, through affiliates or third parties, can determine the auction prices.

24 This strategy can be successful even if a significant fraction of the BGS
25 load could be served by power from generators who are willing to offer
26 lower prices. Due to the structure of the auction, all remaining bidders at the

1 end of the auction will receive the higher price determined by the marginal
2 suppliers (who may be relying on overpriced power from generators
3 exercising market power).

4 The issue of market power is further complicated by the need for
5 bidders to bundle a variety of generation services (baseload, intermediate,
6 peaking, reserves, and ancillary services). There may be opportunities for
7 exercising market power in a particular service, by the owners of particular
8 types of power plants, in addition to market power in more generic capacity
9 and energy markets.

10 **Q: How concentrated is the control of uncommitted generation for the**
11 **period of the BGS auction?**

12 A: The Companies have provided no information on this critical subject (RAR-
13 BGS-36). For all they know, their proposal may expose New Jersey ratepay-
14 ers to prices that are controlled by one or a few large generation companies.

15 Unlike the numerous applications in which SMR auctions have been
16 used to sell licenses and rights, and bidders required little more than cash to
17 participate, the bidders in the BGS auction will need to back up their bids
18 with generating capacity. That capacity is in limited supply, compared to the
19 supply of capital from banks and other lenders for purchases of telecom
20 rights. Without knowing how much capacity is under contract to serve
21 customers for the equivalent of BGS in other jurisdictions, and direct-service
22 customers throughout the region, it is not possible to determine how
23 competitive the supply of generation for the BGS auction would be.

24

1 **Q: Is the supply of uncommitted generation capacity to serve the proposed**
2 **auction likely to be highly competitive?**

3 A: The supply in the summer of 2002 does not seem to be particularly robust.
4 PJM expects about 64,000 MW of generation to be available in the summer
5 of 2002.⁷ This is only about 2,000 MW above the requirement 62,000 MW
6 (IR RAR-BGS-26b). Assuming that capacity is committed to serve the rest of
7 the PJM load (mostly through other states' equivalents of BGS), about
8 22,000 MW of capacity would be available to compete to provide 20,000
9 MW of requirements. The ratio of initially bid capacity to requirements
10 would then be no more than 1.1. This is well below the 1.26–1.6 range of
11 interest ratios that the utilities consider (in RAR-BGS-21) to be required for a
12 competitive auction.⁸ If capacity does have a role in the BGS auction, as
13 seems obvious despite the Companies' denials, the supply appears
14 precariously thin.

⁷“2001 Summer PJM Reliability Assessment,” cited in RAR-BGS-26d. In that response the utilities refer to a “range of 67,000 to 74,000 MW of installed capacity in the 2002–2003 timeframe,” but the 67,000-MW value appears to be PJM’s expectation for 2003, and the 74,000 value does not appear in the source document. The 2001 MAAC forecast for NERC projects 65,600 MW of resources for summer 2002. However, this forecast lists all new additions as combustion turbines, which raises questions about the accuracy of the capacity projections.

⁸This range of ratios is based on sales, rather than purchases. It is not clear how the Companies selected this range, as they were able to provide data on units offered and units bid for only 12 auctions, of which three auctions had less initial interest than the number of units offered. Of the remaining auctions, five had initial interest in two to five times the number of units available. This leaves four auctions with interest ratios of 1.21, 1.27, 1.44 and 1.84. The Companies have not explained how they measured the success or failure of these four auctions, and how that led them to determine that the critical value fell between 1.26 and 1.6.

1 The issue of generation supply in PJM is further complicated by the
2 expectation that New York’s generation supply will be very tight in 2002 and
3 2003, and that load-serving entities in New York are likely to be purchasing
4 capacity from PJM.

5 **Q: Do supplies need to be very concentrated to produce market power?**

6 A: No. The three generation companies that have been accused of manipulating
7 market in California have the following shares of California capacity:

- 8 • 6% for Mirant, the former Southern Company generation affiliate;
- 9 • 4% for the Dynegy-NRG partnership;
- 10 • 7% for Reliant.⁹

11 The Companies’ proposal does not provide any protection against
12 exercise of market power by generators, and provides only minor and
13 probably ineffectual responses to exercise of market power by marketers.
14 Even those limited measures would not be triggered if the level of
15 concentration in the bidding were the same as the concentration of generation
16 ownership in California.

17 **Q: How do the Companies propose to check the BGS auction results against**
18 **prices in the market, to ensure that the prices are no higher than the cost**
19 **of the Companies direct procurement of power?**

20 A: They offer no such proposal. Once the Board approves the auction structure,
21 if enough bids are received, regardless of price, BGS would be acquired
22 through the auction.

⁹These percentages are computed from the California Energy Commission’s database of power plants with information as of January 17, 2001. The Commission has made the most recent version of its database, “power_plants.xls,” available its web site, www.energy.ca.gov.

1 **Q: Have the Companies used market indicators to check the reasonableness**
2 **of the prices bid in their competitive procurement of BGS supply?**

3 A: Yes. Before and during the solicitation of energy and capacity from
4 marketers, Atlantic Electric used broker bids and production-costing models
5 to determine the likely range of short-term market prices, and to set
6 maximum prices for longer-term contracts. In one case, Atlantic Electric
7 rejected all contract bids as being too high, compared to its benchmarks. In
8 other auctions, the utility was satisfied that the bids reflected the market, and
9 accepted the best bidders.

10 The Companies' proposal precludes this sort of reasonableness check.

11 **Q: Do the Companies anticipate that the proposed auction would encourage**
12 **competition between generators?**

13 A: No. On discovery, the Companies indicated that they expect the proposed
14 BGS auction to represent primarily competition between marketers in broker-
15 ing and bundling generation products to create the bundled BGS supply (see,
16 e.g., RAR-BGS-30, RAR-BGS-33, RAR-BGS-36a, RAR-BGS-38).

17 The marketers would also be assuming a range of risks, including
18 changes in load shape (including those due to changes in the mix of sales by
19 class) due to weather, the economy, and migration to direct competition.
20 Those risks would require the marketers to add a margin to the expected cost
21 of generation services. This margin may exceed any savings that may result
22 from clever bundling.

23 **Q: How could marketers exercise market power?**

24 A: In much the same way that the generators can. A marketer who controls a
25 significant portion of the supply, through either a corporate relationship with

1 a generation company or contracts with generators, can demand higher prices
2 than would be achieved in a competitive market.

3 Due to the range of generation products that must be bundled together,
4 it is not clear how many marketers will be able to participate in the
5 auction. proposal might not constrain forms of cooperation and communi-
6 cation that have not been encountered previously, since the SDCA format has
7 never been used before.

8 In particular, the proposal does not appear to address the issue of a
9 generation supplier providing pricing signals to, and receiving signals from,
10 multiple bidders to whom the supplier is providing generation services. The
11 prices at which a generating company is willing to sell generation products
12 may fall during the auction as the amount it is obligated to sell falls (as the
13 marketers with whom it has agreements reduce their commitments). Thus,
14 some such communication may be essential to the operation of the auction. It
15 is not clear how essential communication can be permitted without also
16 permitting a large generating company to influence multiple bids, to the
17 mutual benefit of the generator and its marketer customers.

18 Opportunities for exercise of market power by one or more suppliers
19 may be increased by the amount of information that the Companies propose
20 to make public. The Companies' proposal would directly release some
21 information regarding the amount of bids. In addition, the price decrements
22 would be directly tied to the amount of the bids, over a wide range of
23 bidding, allowing bidders to determine quite precisely the total quantity of
24 tranches bid in the previous round.

25 **Q: Will it be possible to determine whether the observed bids are truly**
26 **independent and additive?**

1 A: No. A generating company may be offering the same capacity through two
2 marketers, one of whom is likely to drop out of the auction early. The
3 generating company may have set a high price for its power, or may retain
4 the right to withdraw its offer during the auction. A marketer may also start
5 out offering to serve more load than it actually intends to supply. These
6 strategies would not expose the bidders to much risk. If the auction price
7 turns out to be so high that the generator or marketer ends serving more load
8 than it intended, it should be able to acquire the additional generation
9 products in the marketplace and still earn a healthy profit.

10 The Companies recognize that, in the sort of highly automated auction
11 they have proposed, bidders' overstatement of initial interest can be a serious
12 problem. The Companies propose a complex strategy for determining
13 whether the auction is competitive, relying primarily on the number of
14 tranches bid in the initial rounds.¹⁰ Yet an auction that starts with many
15 announced bidders, each offering to serve large amounts of load, may in fact
16 represent little real competition. The mechanisms that are proposed as protec-
17 tions against gaming in the Companies proposal appear to have been selected
18 in an arbitrary and judgmental fashion. The Companies have not provided
19 any theory or empirical evidence to support the numerical tests they propose
20 to apply, or the stage in the auction at which the tests would be applied.

21 Even were the Board convinced that the Companies' consultants have
22 made a reasonable set of educated guesses in selecting the tests of serious
23 competitiveness, those sort of guesses should not be the basis for committing

¹⁰The details of the Companies' proposal are confidential.

1 New Jersey to purchase BGS for 18,000 MW of load.¹¹ Relying on educated
2 judgment for the design of an experimental acquisition of a few hundred
3 megawatts of BGS supply statewide might be reasonable; relying on
4 judgment for the state's entire supply is not.

5 **Q: How does the utility proposal fail to promote retail competition?**

6 A: The BGS supply would be provided entirely at the wholesale level. The
7 suppliers would not achieve any visibility to consumers, who would have no
8 reason to even know that their supply is from a third-party supplier.¹² This
9 approach will not increase consumer understanding of or interest in com-
10 petitive energy procurement.

11 **Q: Do you have any concerns about the schedule that the Companies have**
12 **proposed for the auction and the provision of competitive BGS supply?**

13 A: One concern is that the proposed auction would occur very soon after the
14 Board's order establishing the proceeding. It is not clear that marketers will
15 have time to secure commitments for the generation services that they will
16 need to support their bids. Any uncertainty in the cost of services to the
17 marketers would tend to increase the risk to those bidders and increase the
18 prices they must bid.

19 The proposed August 1 2002 implementation date for the competitive
20 BGS supply is also problematic. In June, FERC approved changes to the
21 PJM market rules that are especially important for the treatment of capacity

¹¹There is little relevant experience from which anyone's judgment can be educated on the operation of a Simultaneous Descending Clock Auction.

¹²This issue is explored in greater detail in the testimony of Ratepayer Advocate Witness Scott Hempling.

1 obligations for the summer period. As FERC described that changes to the
2 PJM Reliability Assurance Agreement, they:

3 (a) adjust the time period over which an LSE must commit generation
4 resources to PJM to meet its capacity obligations under the RAA
5 from a daily commitment to a seasonal commitment ranging from
6 three to five months. The three seasonal intervals will be June
7 through September, October through December, and January
8 through May;

9 (b) determine the deficiency charge on an interval basis, so that an
10 entity will be charged a deficiency charge based on the day in
11 which it was most deficient during that season, and the charge will
12 equal that daily amount times the number of days in the season;
13 and

14 (c) require generation owners to commit excess capacity (capacity not
15 already committed to an LSE) to PJM for an entire season, rather
16 than on a daily basis, in order to participate in the distribution of
17 revenues from capacity deficiency charges to LSEs. (Docket No.
18 EL01-63-000, Order Accepting Amendment, June 1, 2001)

19 The proposed period for the acquisition of BGS supply does not match
20 the currently proposed capacity-responsibility periods, increasing the
21 complexity of each bidder's task in lining up capacity. Under the new PJM
22 rules, the standard summer capacity product will become a block of unforced
23 capacity for June to September. The BGS suppliers will need to acquire
24 about 18,000 MW of capacity for August 1 2002 in the middle of the
25 summer-2002 responsibility period of June to September, and make plans to
26 dispose of that capacity in the middle of the summer-2003 period. Capacity
27 for these partial summer periods, being non-standard products, are likely to
28 be more difficult to trade and to expose marketers to greater risk. The short
29 interval the Companies propose between Board approval and the start of the
30 auction will further complicate this task.

1 An additional concern with the timing is that FERC has recently
2 ordered PJM to form a regional transmission organization with the New York
3 and New England ISOs. Neither the timing of the merger nor the market
4 rules that might emerge from such a combined regional transmission
5 organization are yet determined, further increasing marketer risks.

6 **Q: How should the Board respond to the utility proposal for bidding of**
7 **BGS supply?**

8 A: The Board and parties will require additional time to resolve the concerns I
9 have discussed above and develop a more appropriate plan for BGS supply.
10 To give more time for this process, the Board could order the Companies to
11 acquire generation services to meet BGS supply through September 2002,
12 allowing the Board a few more months to determine the form of whatever
13 longer-term auction it chooses to implement.¹³ This delay will also align
14 subsequent BGS supply years with the PJM capacity obligation intervals.

15 **Q: What suggestions do you have regarding BGS supply strategy after**
16 **September 2002?**

17 A: Ratepayer Advocate Witness Scott Hempling discusses the Board's range of
18 options for procuring bundled BGS supply. I would add to his discussion
19 only two additional points.

20 First, due to the market conditions I discuss above, the Board should
21 weigh ordering the utilities to procure bundled BGS supply in smaller
22 increments, rather than to procuring all the supply in a single auction. This is

¹³In addition to the two months of direct delay, prospective BGS suppliers would not need to obtain summer generation resources (which are more expensive and scarcer) until June 2003. Removing the requirement to obtain summer resources for summer 2002 should permit a least a few months' delay of the auction.

1 particularly true if the Board selects a novel and untested auction process,
2 such as that the Companies have proposed.

3 Second, for any BGS supply that is not acquired in a bundled form,
4 through whatever auctions the Board establishes, the utilities should procure
5 bilateral energy and capacity contracts, supplemented by balancing and
6 ancillary services from the PJM markets. This procurement would be similar
7 to the approach taken by Atlantic Electric to supplement its retained
8 generation and transition contracts.

9 **Q: Does this conclude your testimony?**

10 A: Yes.